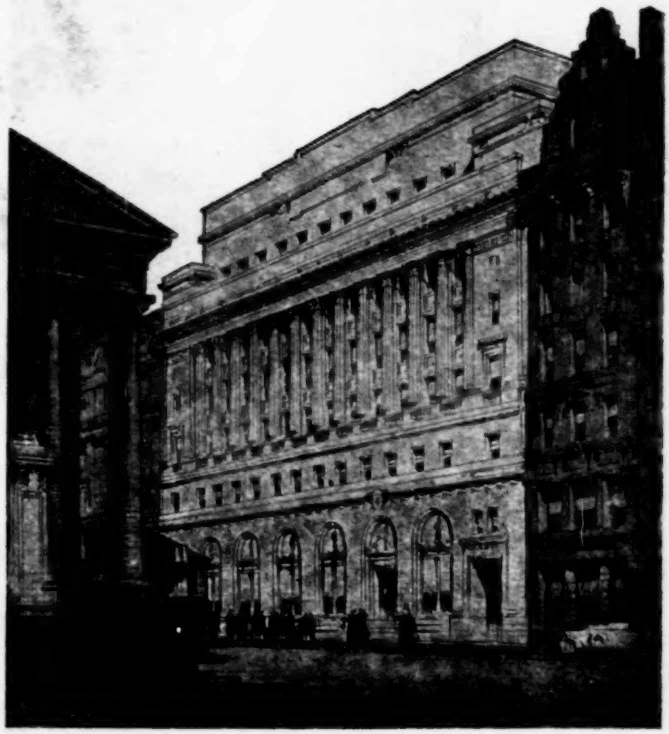

Lloyds Bank Limited

MONTHLY REVIEW

JANUARY 1932

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It is proposed to issue in the early Spring a Supplementary Number of Lloyds Bank Review composed exclusively of articles by distinguished writers on the subject of *Franco-German Economic Relations* and their bearing upon the present depression.

One copy of this Supplementary Number will be issued free of cost to all existing recipients of the Review, but if readers wish to be supplied with additional copies they can be obtained at the price of 1s. per copy, postage included.

In such cases the accompanying form should be filled in and forwarded with the relevant remittance.

To the Editor, Lloyds Bank Monthly Review,
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I enclose ____________ and shall be obliged if you will send ____________ copies of the Supplementary Number of the Review to the persons whose names and addresses are given overleaf.

Yours faithfully,

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Lloyds Bank Limited Monthly Review

New Series—Vol. 3 January, 1932 No. 23

Franco-German Economic Relations

Introduction—

By Sir William Dampier, Sc.D., F.R.S.

THE economic and financial crisis from which the world has been suffering is due to a complex of causes, which acted and reacted on each other and on their immediate effects till the whole process became cumulative, and the world, in unstable equilibrium, was hurried towards an abyss.

Leaving aside for the moment the grave political issues with which the whole problem is interwoven, we will deal first with the economic aspect. If any one factor can be singled out as fundamental and predominant, it is the fall in the gold prices of wholesale commodities, that is, the rise in the value of all money and currencies based on gold. The results of such a change are disastrous. We need only point out the fact that foreign debts incurred in the years just after the war are now three times as burdensome as they were when contracted, measured in the amount of wholesale commodities which have to be sold either to liquidate the debts or to pay interest upon them. Unless debtor countries can continue to borrow abroad, a process which gives temporary relief at the cost of future indebtedness, they can only pay their way, when their reserves of gold are exhausted, by the sale of commodities. This at once explains why impoverished countries like Austria and Germany, and producers of wheat and wool like Australia, with heavy liabilities incurred by extravagant borrowings from somewhat reckless lenders, have got into difficulties. Again, Great Britain, striving firstly to raise the pound sterling to its old gold parity and then to maintain it, carried out various measures of monetary deflation, but effected no lowering of nominal wage-rates and other costs of production in conformity with the rising value of money—a process which logically should have accompanied deflation. Hence came an increasing

strain on the economic structure of the nation, and an eventual breakdown, which took the form of a failure to maintain the connection of the pound with the ever-rising value of gold.

It is said that England has broken faith with her creditors. Since some debts were contracted when the pound was defined as 113 grains of fine gold, this accusation may in part be formally true. But until they are exchanged for other things, 113 grains of fine gold are singularly useless to most people. And as the pound has lately remained approximately constant in internal purchasing power, our creditors can buy as much in British goods and services as they could before we left the gold standard. Also, those debtors who have to pay us in sterling, and were being cheated by a change in the golden yard-stick by which their debts were measured, are now finding relief and, from our own selfish point of view, are less likely to default. We must learn to think less in terms of pounds, dollars, and francs, and to appraise values more in what those currencies will buy. Thus regarded, the pound sterling, with no metallic basis, has proved a better and more constant standard than gold. Indeed, if all currencies were stabilized in terms of purchasing power, with safeguards against inflation and deflation, instead of in terms of one arbitrary commodity like gold, these great changes in the burden of debts and other fixed charges would be avoided.

Accepting the disastrous importance of a fall in the general level of prices, of a rise in the value of money, we must turn to seek its cause. Doubtless, industrial depression and monetary insufficiency act and react on each other—both are cause and both are effect. The monetary equation, like all other equations, has two sides, and the price level depends on the output of goods as well as on the amount and velocity of circulation of currency and credit. But one cause, perhaps the chief cause, of the present fall in prices is the mal-distribution of the world's stock of gold. A continuing charge for war debts and reparations, like any other large international payment, can only be satisfied by the transfer of goods and services or promises to pay—no gold-reserves can stand the drain. But the new creditor countries, France and America, put every obstacle in the way of receiving payment in goods by the erection of high tariff walls, and, after a brief interlude, have ceased to lend their rising balances abroad. Hence has come the accumulation of gold in Paris and New York, an accumu-

lation which has depleted the monetary gold of other nations, made that gold rare and dear, and helped to put down the price level of wholesale commodities. Owing to the inevitable effect of present economic forces, America and France have unconsciously cornered the gold in which they demand payment, thus removing it from their debtors' reach and artificially depreciating the goods in which alone payment can be made. Then, as far as tariffs would do it, they have refused to accept payment in goods at all.

To us it seems that these nations are not acting in accordance with the accepted rules of an international standard for money. But, in pointing out the consequences of foreign action, we must not overlook the criticism which, in turn, is levelled at us by those nations who, at great self-sacrifice, have lowered their wage-rates and other costs of production in conformity with the rising value of money. To them, our troubles, with their world-wide repercussions, are seen to be due to *our* failure to play fairly the "gold-standard game." With a mistaken insistence on the maintenance of nominal salaries and wages, we refused to readjust our costs of production and cost of living as prices fell. Thus came our economic crisis and our break with gold, and all nations in financial touch with London suffered from our default. That is the Continental case against Great Britain, and it seems difficult to answer. It may be that the National Government lost a real chance of reducing our costs just after the General Election. The salaries of those in Government service had been "cut," and an appeal for a corresponding national effort might then have met with success. The dislocation between prices and costs, though diminished by our departure from the gold standard, is yet serious. Indeed, if prices continue to fall in gold-standard countries, we may yet have to face the difficult readjustment of nominal incomes.

Meanwhile, the rising value of gold continues to work havoc. As against gold-standard countries, Great Britain has now a certain differential advantage in competitive trade. But, in other ways we lose—for instance, at the present rate of exchange, our debt to America, payable in gold dollars, would cost about £48,000,000 to transmit instead of £33,000,000, while most of our receipts from overseas are payable in sterling.

Hitherto Germany has paid reparations from the proceeds of loans borrowed abroad, chiefly from the United States and

Great Britain. But, partly owing to our own financial difficulties and partly owing to increasing want of security for the loans, we can lend no longer, and, when the moratorium is over, the whole position must be reconsidered. The Dawes Plan contained a wise provision for scaling down the nominal amount of payment if prices fell. It was a lamentable mistake to cut out that provision from the Young Plan. But, in any case, so long as war debts and reparations stand, and creditor nations will neither accept payment in goods nor lend abroad, the drift to creditor countries of gold or other money of intrinsic value will continue, and the present evils from which the whole world suffers will grow worse and worse.

This analysis of present economic world conditions is necessarily brief, and therefore incomplete. But I believe it to represent the essence of the economic situation. It shows how necessary it is to cancel or reduce these impossible international payments, unless indeed the creditor countries will learn to accept payment in goods, or give temporary relief by lending their balances to the debtor countries. And here we are brought to the over-riding importance of psychological and political considerations. With growing financial difficulties, both America and France become less inclined to write down their debtors' liabilities, though the difficulties are chiefly due to the debts and their effects on world trade. Again, owing to the general fall in prices, all nations find their industry depressed and refer the trouble to foreign competition. They accuse each other of "dumping"; an irresistible demand for protection arises, and we see every country in a mad world trying to sell and not to buy. Moreover, France holds that reparations are a moral debt by Germany, and regards their payment as bound up with the problem of future military security, while the United States will not even consider a cancellation or diminution of their claims so long as Europe will not disarm and may use the money in preparation for war. We are thus brought face to face with the age-long antagonism between Gaul and Teuton as a fatal block in the way of world appeasement and economic recovery.

Whether, with Bayle and Albert Sorel, we date the antagonism from the marriage of Maximillian I with the Duchess Marie of Burgundy in 1477, and the subsequent quarrels of the reigning houses of France and Austria, or seek its origin in the primitive clash of peoples, it has clearly been the chief factor in

European politics for several centuries. The first Lord Cromer was accustomed to act on the conviction that, in a complex political problem, there is generally a key-point. In the political difficulties, which underlie the present industrial and financial crisis of the world, the key-point may well be found in Franco-German economic relations.

In both Germany and France men of goodwill are seeking to find a solution of the problem. Unless such a solution can be found, the mechanism of international trade may break down, the world will remain in deadly peril, and Western civilization stand in imminent danger of collapse.

In the hope of clearing up the situation and giving voice to these moderating influences, LLOYDS BANK REVIEW has arranged a series of articles, including one setting forth the French point of view; another by an eminent German economist; and a final summing up by Sir Arthur Salter, whose work on the Economic Council of the League of Nations is so well known.

As events are moving rapidly, it is proposed to embody these articles, together with a reprint of the present introduction, in a special number of the REVIEW, which will be published in the early Spring. It is hoped, in a later issue of the REVIEW, to publish an article on the same subject by an American economist.

*** *The Bank publishes from time to time in this Monthly Review signed articles by exponents of different theories on questions of public interest. The Bank is not necessarily in agreement with the views expressed in these articles.*

Labour and the Balance of Trade

By Right Hon. William Graham, LL.D.

IN common with other political parties the Labour movement has related the problem of the balance of trade to a national economic background which has changed substantially within recent years.

The Macmillan Committee recalled that we import 60 per cent of our food. In 1930 the aggregate value of imported articles was £958,000,000. That is nearly £21 per head,

which is high compared with most countries. For these imports we pay in exports, supported by commercial, financial, shipping and *entrepôt* effort. But changes have been considerable. In the period between 1913 and 1930 imports increased from £659,000,000 to £958,000,000; adjusted, however, to the rise in prices, and with allowance for alteration in the territory covered, the increase in the volume of imports into the United Kingdom and Northern Ireland was probably little more than 18 per cent. But in the same period, while increasing in value from £525,000,000 to £571,000,000, domestic exports decreased in volume by 32 per cent. Certain allowances must be made for variations in the quality of goods; the adverse effect on employment of this increase in imports and decrease in exports is beyond dispute.

To this short period review should be added the longer analysis of Sir William Beveridge and other economists in their recent analysis of tariffs. They drew attention to the apparent worsening of Britain's economic position, as contrasted with the steady progress for half a century or more up to 1900; the later accumulation of post-war burdens; a national income which was apparently stationary and is now falling; exports which have fallen to two-thirds of the pre-war level or less; an average of unemployment which has been doubled or trebled; the dangerous growth of economic nationalism; and, in conflict with the hopes of the early free traders, the growing interference of the State with individual freedom in fields other than that of free trade. Labour appreciates that all these forces have a close bearing on fiscal policy; it agrees that they do not alter the fundamental dependence of this country on overseas trade.

Much will be gained if the critical economic problem which now confronts the State is put accurately and in proper proportion. For it is not a problem which lends itself to easy or dramatic solution, following one apparently overwhelming Parliamentary speech. Taking visible and invisible items together, Great Britain has had large favourable balances within recent years. These balances have built up substantially the £4,000,000,000 of British investments abroad. That aggregate is the total surplus of our exports of goods, services and gold over the imports of these things during a long period, paid for in securities by the recipient countries.

In 1928 the favourable balance was £137,000,000; in 1929 it was £138,000,000; then it dropped to £39,000,000 in

1930, while many contended that, if all the factors of that year were taken into account, there was no favourable balance at all. At the end of 1931 it is thought there may be an unfavourable balance approaching £100,000,000; not since the war period have we had an adverse trade balance. Whatever the actual figure—and the figure is necessarily speculative—the position is serious; and Labour recognizes that exceptional steps, quite inappropriate and even dangerous some time ago, may now have to be taken. They must, however, be taken with the greatest care, for this is a sphere in which practically every device may well have grave repercussions.

It is difficult to see how a restrictive tariff can get to the root of one part of the problem—the greater attractiveness of foreign as compared with home investment. Several authorities have suggested a decrease of foreign lending by the use of subsidy or other arrangement to establish a differential rate for home as against foreign investment; and there are many plans to stimulate investment at home and abroad by an international cheap money policy. But if the tariff is to be effective in the adjustment of foreign lending, and through that on the quantity of goods reaching Great Britain, it must be certain that the reduction of imports will not be offset by a decline in exports. If a British tariff severely restricts the trade of, say, the Argentine, it must restrict its desire to borrow and our opportunity to lend; by the export of their goods these foreign countries earn their living; to finance their business, export trade included, they want loans; their credit depends on their prosperity; and if in this process their prosperity is adversely affected their demand for British export goods must be appreciably reduced. Labour believes that in due course there must be some form of international agreement regarding investment; tariffs are not the hopeful line of approach. The further discussion of reparations and German commercial debts as related to trade recovery may throw light on this part of the problem, and pave the way to a greater measure of international co-operation.

With others the immediate proposals in which Labour is interested are more familiar:

(*a*) To increase the foreign balance by diminishing the volume of imports by means of tariffs or analagous measures; and

(*b*) To increase the foreign balance by decreasing the money costs of production, not in reduced wages but by increased efficiency.

At this stage we must guard against the undue Parliamentary emphasis on the purely visible or merchandise balance. In the first ten months of 1931—the latest date to which figures at the time of writing were available—the excess of imports over exports was £323,000,000. In spite of all the public clamour, that is approximately only £10,000,000 more than in the same period of last year. Moreover, if movements of bullion and specie are included the position is definitely better than it was a year ago. The deterioration in the British net position in 1931 is largely due to the heavy reductions in the invisible items, shipping and income from overseas investments. These are bound up with the condition of world trade; admittedly, British influence, in trade improvement, is at the mercy of many external factors over which we have no control; and while every economist agrees that the ideal method is to increase our exports, we are for the time being compelled to consider the curtailment of imports. On that point Labour believes that the Abnormal Importations (Customs Duties) Act, 1931, may represent the limit to which this country can go in the modification of its fiscal system, if we are to safeguard the aggregate volume of our trade. And even in that sphere the dangers are already great.

Under the first two orders an *ad valorem* duty of 50 per cent was applied to 34 descriptions of articles under class III of the Board of Trade return of imports, which relates to articles wholly and mainly manufactured. Customs duties under various budgets were already applicable to £75,000,000 worth of the £307,000,000 worth of British imports in that class in 1930; the first two orders under this Act covered imports worth £35,000,000 in 1930; so that the total is at least £110,000,000, subject to high and in many cases prohibitory tariffs. That total, to which additions have since been made, is exclusive of the corresponding duties under separate legislation applicable to a wide variety of foreign agricultural and horticultural luxury or quasi-luxury imports. The trade statistics indicate considerable forestalling within recent months; free trade members of the Government argue that these are purely emergency measures; when the exceptional imports are definitely treated and a favourable trade balance restored they

suggest that this Act, which in any event only runs for six months, will be abandoned. Few believe that their forecasts will be fulfilled. Protectionists, on the other hand, describe these measures as emergency preparation for a general tariff, which they believe will be presented in the Budget of 1932. A temporary method of dealing with exceptionally large luxury imports may be necessary, especially as the other factors in income from overseas investment and from shipping are, as related to world trade, largely beyond our control. But the outside world views the programme as the beginning of a substantial departure from British free trade fiscal policy. Labour believes that, however unpopular it may be at the moment, the only sound course is to take the longer view; and ask what will be the cumulative effect on the aggregate volume of British trade and, therefore, ultimately on the trade balance.

In summary, there will be many varieties of immediate retaliation. The French surcharge of 15 per cent was ostensibly to offset our export advantage based on a depreciated exchange when we left the gold standard; but it was doubtless also intended as a bargaining factor in reply to such tariffs as we might impose or to prevent their imposition. Since it is announced that no bargain will be concluded with any foreign country prior to the decisions of the Imperial Economic Conference at Ottawa in July, 1932, early negotiation with foreign countries in problems of this kind will be either ineffective or impossible. In all probability there will be much sporadic and costly retaliation, especially as the protectionist pressure in the British Parliament will steadily increase. Second, this policy must diminish the sum total of our invisible exports. The net shipping income was £105,000,000 in 1930. If Britain makes a substantial contribution to world trade restriction, as is now solemnly suggested, our shipping will probably suffer most. In 1930 the net income from overseas investment was £235,000,000. A British tariff which impairs the producing and exporting interests of many foreign countries and weakens their internal economy can do nothing to help our income from foreign investment; this point is admirably illustrated in the large British ownership of Argentine railways. In 1930 we had £70,000,000 from commissions and similar services. Trade restriction means fewer financial, insurance and kindred services; under that head also we shall be losers.

Third, the reaction on our export trade, as a result of this policy, will probably wipe out all the export stimulus or advantage due to our departure from the gold standard. The depreciated pound is itself a general tariff on imports; it helps exports. But if additional overt duties prohibit or greatly reduce the imports, and provoke substantial retaliation against our exports (already described as the ideal method of improving our position) then the depreciated pound may be merely an expression of Britain's weakness in world finance, a development manifestly unjust to what is still a great creditor country. Further, this tariffist policy directed to the trade balance is practically certain to lead to the loss of many of our advantages in most-favoured-nation treatment under our commercial treaties. In practically all foreign markets, hitherto without the disadvantage of a tariff burden here, we have been accorded the lowest or most favourable tariff which they apply to others on the basis of their tariff negotiation. Most-favoured-nation treatment lies at the root of British commercial development. Rightly regarded, our open market has been in trade one of our best investments. It will be the gravest disservice to the trade balance of the future if in panic measures that investment, safeguarded in innumerable treaties, is weakened or destroyed.

Again, possible gain from the Dominions in the extension of preference within a United Kingdom tariff system must be cautiously regarded. At the Imperial Economic Conference a year ago both Canada and Australia indicated that whatever happened they intended to develop, behind high tariff barriers, their manufacturing industries. They added that that attitude would be fully maintained even if this country put duties on imported foodstuffs such as would give other parts of the Commonwealth an attractive preference. Now duties on imported foodstuffs, with virtual certainty of rise in the cost of living and in costs of production, have no attraction for us unless there is offered in return within the British Commonwealth the guarantee of larger markets for our manufactured goods. In a recent statement Mr. S. M. Bruce, a former Prime Minister of Australia, suggested that Australia—and this is true also to some extent of Canada—might be willing to abandon those parts of manufacture which she could not pursue on a scale large enough to be economic. In that sphere there might be preferential allocation of the Dominion market in favour of British manufacture. But it is quite definitely

limited; to be effective it would require considerable negotiation with the industries immediately affected; and in return to this country it would fall far short of the addition to British competitive export costs of output due to the existence of import duties on all imported foodstuffs. Two-thirds of our export trade is done with Europe and foreign countries. Anxious as we all are to develop inter-Imperial trade, it is better to recognize at once the practical limitations of that effort.

The other large method of dealing with the adverse balance is to decrease the money costs of production, not in reduced wages but in increased efficiency. Only brief notice of this very large problem is possible. The ideal way being to increase exports, we find that, in all the leading export trades—cotton, iron and steel, coal, shipbuilding, and woollen textiles—there are important plans for large-scale reorganization. All these industries have had their overseas markets greatly reduced. World political and financial conditions are part of the explanation; but in any event, having regard to the manner in which competitive countries have got rid of their internal debt and have in many cases achieved a greater measure of industrial reorganization than Great Britain, we must now be prepared for very drastic plans. Off the gold standard, and with an upward tendency in the cost of living, frontal attacks on wages are not practical politics. In cotton there is still no comprehensive method for linking up raw material, spinning, weaving, the dyeing and finishing trades and merchanting. The Lancashire Cotton Corporation has amalgamated nine million spindles, chiefly in the American spinning section. Innumerable plans for larger units on the manufacturing side have encountered great opposition. The finishing trades are more completely organized, but are criticized for doing comparatively well at the expense of the weaker elements. Merchanting is highly individualistic; a trade mission to the Far East suggested a form of export corporation for the purpose of reducing costs in a more united and effective appeal to overseas markets. For in spite of all our sorrows, cotton is still our largest export trade.

In iron and steel there are proposals for four regional units—South Wales, the Midlands, including Cumberland, the north-east coast, and Scotland. These proposals involve the elimination of weak concerns, the amalgamation of much of the

existing plant, a considerable amount of new capital, and, presumably, some form of central or national machinery similar to the central or national organization of the coal-owners under the Coal Mines Act, 1930. In coal that legislation included the regulation of output at the pithead to get rid of weak selling and unremunerative prices, together with compulsory power in the amalgamation of collieries. In woollen textiles amalgamation has made relatively little progress; but a levy on shipyards has enabled that industry to compensate out of existence many of the units and to concentrate the output on those likely to give the best results. Substantially, all these tendencies are part of the combine or trust movement in British industry. Endless controversy surrounds the size of the unit and the point at which genuine efficiency and the human note can be preserved; problems of personnel in rival undertakings, notably true of cotton, with its still powerful individualism; the difficulty of fusing undertakings of widely differing financial strength; and, in general, whether there should be amalgamation at all. Further, should the amalgamation be left to the voluntary effort of the industry or should there be compulsion, as in the Coal Mines Act in the case of collieries? If there is legislative compulsion can the State escape some share of responsibility for the financial reconstruction which is generally involved?

In finance and industry nothing resembling national agreement has been reached in this problem. Labour is convinced that in the changed conditions following the war, and particularly in the light of the competitive experience of the last five years, Great Britain cannot regain much of her former export strength—and thereby take the true if somewhat longer route to favourable trade balance—unless this drastic reorganization is resolutely undertaken. No doubt, as in the case of the regional units in iron and steel, Labour and the trade unions immediately affected would prefer a form of public utility or public corporation; for present purposes it is sufficient to consider the speediest method of reducing costs, without further attack on wages. If world prices rise, so much the better for our reorganized and improved competitive strength.

Accordingly, in the treatment of the adverse trade balance the Labour movement would in general prefer to rely on freedom of trade and drastic reorganization of the large

export and other industries. If, however, a comprehensive tariff is inevitable, it should be definitely related to guaranteed reorganization and safeguards for the consumer; and to that end much can be said for a small business-like tariff commission dealing continuously with the technical and industrial aspects of the problem. The Government of the day, with the approval of Parliament, must always take decisions in large policy. Within such decisions a commission can determine the all-important practical detail, in relation to the effect on commercial treaties, intermediate industries, reorganization, and the probable course of demand. For Labour is satisfied that the balance of trade will be a long, rather than a short, problem affecting the position of Great Britain in the world economic crisis.

The Outlook for Sterling

TO avoid misunderstanding, this examination of the position of sterling is best prefaced with the warning that it is in no way an attempt to forecast the short-term fluctuations in sterling. This examination was begun in early December when the pound was quoted at $3.25, the pound stood at $3.37¾ when this issue of the REVIEW went to press, and the reader is aware of the rate current upon the date of publication. No one can pretend to give an exact forecast of movements of a currency, as the experience of the years 1919–25 showed only too well, and traders and others who wish to protect themselves against sudden fluctuations in the pound would be well-advised to cover themselves forward, so far as the nature of their business and the state of the forward exchange market permits them to do so.

This analysis has two main objects. The first is to explain simply and frankly why sterling depreciated so heavily during November and early December. The second is to put forward some of the considerations that determine what may be called the "natural" level of sterling.

The course of the pound up to December 16th was briefly as follows:—Immediately after the suspension of gold payments it fell fairly steadily until by October 7th it stood at $3.88, or a discount of just over 20 per cent. During the election campaign it slowly improved, touching $3.95½ on October 21st, but a further relapse followed to $3.75½, or a discount of

nearly 23 per cent on November 4th. Then came another pause, for sterling hovered around \$3.79 and \$3.77 for a fortnight, but this pause was succeeded by the second big collapse in the rate, which with minor fluctuations was carried down by December 7th to \$3.24, or to a discount of 33 per cent. A rally followed which by December 16th had carried sterling back to \$3.45. Then came a temporary relapse to \$3.34, and the year closed with sterling quoted at \$3.39.

The next step is to examine the causes of these movements, and especially to determine which if any of them are permanent. It is a truism that every purchase of foreign currency for sterling tends to depress the rate, and that every sale tends to improve it; for the rates of exchange are in reality the prices of sterling in foreign currencies and just like other prices respond to the pressure of supply and demand. Now, broadly speaking, there are three forces at work in support of sterling, these being—

(1) foreign payments for exports of British goods and services;
(2) foreign payment of interest on British loans and investments;
(3) transfers of capital from abroad to England.

Equally there are three counter-forces at work against sterling—

(4) British payments for imports of foreign goods and services;
(5) British payment of interest on foreign loans and investments;
(6) transfers of capital from England to foreign countries.

The fifth of these is of little practical importance to-day.

The first practical point to notice is that foreign exchange transactions are to-day very limited in volume. When gold payments were suspended, the British Government took steps to prohibit purchases of foreign currencies by British nationals for the purpose of speculation or of transferring funds abroad, and still more drastic restrictions upon foreign exchange operations exist in many foreign countries. Dealings consequently are limited to the small volume of international trade now in existence and to the liquidation of positions outstanding at the date the restrictions came into force: for the restrictions were not made retrospective. Now as every trader knows,

a narrow market means wide price fluctuations, and this holds whether the market is in copper or cotton or in foreign currencies. For these reasons, wide movements in exchange rates must both be anticipated, and when they occur not be permitted to cause undue perturbation. There is in fact something to be said for removing the existing Treasury restrictions upon foreign exchange dealings. There is no reason to apprehend a British flight from the pound, and the removal of the restrictions would widen the market and so minimize fluctuations in the exchanges.

Coming now to the practical incidence of the six factors enumerated above, the first, namely, exports of British goods and services, has not yet responded to the stimulus of the depreciation of the pound, and is still at the same depressed level as in the summer of 1931. Ultimately the fall in the pound, with its consequent cheapening of British goods to foreign buyers, should bring about an increase in the demand for sterling, but naturally some time is required for enquiries to be translated first into orders, next into their completion, then into the shipment of goods, and finally into payment for them. Again the stimulus is being offset by foreign tariffs and other restrictions upon trade and by the general impoverishment of the world, and also by any increase in sterling prices such as is already beginning to occur. The first factor has not so far proved of assistance to the pound, but may do so in the not very distant future, unless British export trade is stifled by foreign restrictions and impoverishment.

In considering the second factor, it must be remembered that interest on British investments abroad may be payable, according to the terms of the original issue, either in sterling or foreign currency. Where it is in sterling, as many pounds have to be bought to-day as last summer, but where the interest is payable in the currency of a country still on the gold standard, more pounds will have to be bought. Thus, suppose an annual coupon is for $1,000. Before September, this was equivalent at an exchange of $4.866 to about £205. If the exchange is $3.50, it is equivalent to £286. Apart from defaults, suspensions of interest and the passing of dividends, to-day a matter of some aggregate importance, it would be reasonable to expect sterling to receive greater support from this factor as a result of its depreciation, but too much should not be made of this point.

The third factor, namely, the transfer of capital to England, was of some small assistance during the election, for the confidence engendered by the formation of the National Government and its progress towards its victory at the polls probably led to the repatriation of some British funds previously lodged abroad, especially as the act of repatriation was conducted at rates of exchange which yielded a profit of rather over 20 per cent. The amount of funds available for repatriation was in all probability never very large, and it is possible that by November this factor had exhausted itself. There is little evidence of any investment of foreign funds in England. The instability of sterling is undoubtedly a great deterrent, and while in September and October lack of confidence in foreign banking systems may have diverted some foreign money to this country, the total amount was never large. In one sense this is not to be regretted. The presence in London of large amounts of foreign short money liable to withdrawal at any moment would be the same potential danger that it proved to be last summer.

It is now time to take stock of the analysis, so far as it has proceeded at present. It has been found that capital movements inwards may have given temporary support to sterling in October, but have since ceased to do so. It has also been found that exports of British goods and services have so far been of no greater assistance than they were before the suspension of gold payments, but that they may become of limited assistance in the not too distant future. All this tallies with the stability of sterling during October and with its renewed depreciation during subsequent weeks.

Coming now to the adverse factors, three causes have contributed to swell British payments for foreign goods and services. Firstly, the depreciation of the pound means that imports cost more in sterling per unit of volume, with a very small offset due to the recent fall in gold commodity prices. Secondly, there is always a seasonal increase in imports in the autumn and early winter months, due to the marketing and shipment of the grain and cotton crops. Thirdly, apprehensions of a British tariff have, as stated by Mr. Runciman in the House of Commons, led to a considerable amount of forestalling in certain lines, and though this can now be checked by the application of the Abnormal Importations Act, this factor was the cause of some pressure upon sterling in November, and probably also in December owing to the time-lag between the

importation of goods and payment for them. It is fair to say that the second of these three factors has probably spent its force for this year, while the pressure of the third is now becoming greatly abated and is likely to disappear as and when our permanent tariff policy is declared. An offset here is the effect of our tariff policy upon our export trade, due to such consequences as retaliation by foreign countries and a deterioration of world purchasing power.

Passing over the fifth main factor, the sixth has undoubtedly been of considerable importance, for withdrawals of funds from England have for various reasons continued at least until the beginning of December. To begin with there was the continuation of the withdrawals which were immediately responsible for the suspension of the gold standard. These withdrawals were checked as soon as the pound began to depreciate, for each successive fall in the pound added to the loss that foreigners incurred in taking funds away from London. On the other hand, many foreign holders of sterling balances have been nervous of still further depreciation of the pound and so have judged it best to cut their loss and repatriate their funds.

It must be remembered that the major part of the foreign balances held in London belong not to private individuals but to bankers and others occupying a position of trust to their own customers and clients. During recent weeks, foreign banks in particular have had to exercise very nice judgment. On the one hand they have had to preserve the confidence of their customers and to maintain adequate cash resources at home, and this on the whole has made it advisable to cut their losses and withdraw their funds from London. On the other hand, so long as there is a prospect of sterling improving, it would be the height of folly for them to sell their sterling at the bottom of the market, while if they have to reveal a heavy and irrecoverable loss on their sterling balances—which they would have to do if they withdrew their funds—they would not be acting in such a way as to add to the confidence of their customers.

It is obvious that every variation in the rate not only arises in part from the exercise of this judgment but also has the reciprocal consequence of shifting the balance of judgment, and it is these imponderables that make it so difficult to foresee the likely level of sterling in the immediate future. Certain definite facts can be pointed out. One is that December may have

witnessed an accentuation of foreign withdrawals, for banks abroad were probably strengthening their home cash resources in preparation for their annual balance-sheets. Another known fact is that two months ago the Bank of England repaid £20,000,000 of its August credits and, while £15,000,000 was repaid in gold, the balance imposed a temporary and non-recurrent strain upon sterling. A third known fact is that the British suspension of the gold standard was followed by a general abandonment of the gold exchange standard, in accordance with which many foreign central banks held part of their legal reserve against their notes in the form of "gold exchange," i.e., dollar, sterling or other sound currency balances. During October, these central banks rushed to convert their "gold exchange" into metallic gold, and this incidentally helps to explain the heavy gold efflux from the United States at that time. It has also been suggested in the Press that during the last few months some foreign central banks have disposed of their sterling balances and the fall in sterling at the end of November is generally thought to be partly due to that cause.

The important point to realize here is that the pressure upon sterling due to transfers of capital from England is both temporary and non-recurrent, for as soon as foreign funds held in England fall to their lowest practicable limit, this pressure will automatically cease. It is probable that in so far as foreign short-term funds lodged in London are concerned this limit is now within measurable distance. The possibility of further foreign sales of long-term securities, such as British War Loan, cannot be ruled entirely out of account, but so long as the national finances remain in a sound condition, there should be no reason to apprehend heavy sales upon foreign account, especially as such sellers will automatically incur a heavy loss on exchange.

The net result of this analysis is that on balance sterling fell during the closing months of 1931 under the pressure of non-recurrent forces, which by now should have largely spent themselves. In these circumstances it is not unduly optimistic to look for a rally in sterling at least to its "natural" level.

This is the real question that must be settled if a long-term view is taken, namely, what is the "natural" level of sterling? It must be freely admitted that not only has economic theory failed to produce a rigid definition of a currency's natural level,

but also that even if the natural level of sterling can be defined at all, the forces determining it have not yet reached and never will reach a final and permanent equilibrium. Still, with these important reservations in mind, some guidance can be obtained by an application of Professor Cassel's well-known "purchasing power parity" theory, which states that the natural rate of exchange between two currencies, one or both of which are unanchored to gold, is that which tends to cancel the existing difference in their internal purchasing power. For example, supposing that the internal purchasing power of the pound fell to half the internal purchasing power of the dollar, then the "natural" rate of exchange between the two currencies would no longer be the mint par of \$4.866, but \$2.433, or half the mint parity. So long as the exchange was actually quoted at the "natural" rate, the prices of British and American goods would be on an equilibrium when expressed in the same currency, whether pounds or dollars; but any divergence of the quoted rate from the natural rate or purchasing power parity would destroy this price equilibrium, and so stimulate a flow of goods in the direction calculated to shift the quoted rate back towards the purchasing power parity.

The theory never pretended to be exact, for the purchasing power parity cannot be calculated precisely, and while the theory argues that the quoted rate of exchange will always tend towards the purchasing power parity in the sense that when the gold standard is in operation it will always tend towards mint parity, it admits the existence of the many forces affecting exchange rates, driving them away from purchasing power parity as under the gold standard they drive them away from mint parity. What the theory really states is that once the gold standard is suspended, purchasing power parity should be substituted for mint parity.

The following table, extracted from a foreign exchange text-book,* shows how the theory worked out in practice in 1920–24. It also shows the fluctuations in the actual exchange rates that occurred, and the divergence between the quoted exchange and the purchasing power parity.

It is noticeable that the quoted exchange usually stood at a discount which was greatest in the autumn months of seasonal pressure upon the pound.

* "The A B C of the Foreign Exchanges," by Clare-Crump: Macmillan & Co. Ltd.

Date	Rate \$ to £	Purchasing Power[1] Parity \$ to £	Divergence %	Date	Rate \$ to £	Purchasing Power[1] Parity \$ to £	Divergence %
1920				1922			
Jan.	3·670	3·920	− 6·4	Mar.	4·379	4·740	− 7·6
Feb.	3·382	3·710	− 8·8	April	4·415	4·740	− 6·7
Mar.	3·743	3·660	+ 2·2	May	4·446	4·800	− 7·5
April	3·927	3·780	+ 3·7	June	4·451	4·810	− 7·5
May	3·848	3·840	+ 0·3	July	4·447	5·020	−11·5
June	3·951	3·920	+ 0·8	Aug.	4·464	5·160	−13·4
July	3·861	4·020	− 3·8	Sept.	4·436	5·170	−14·3
Aug.	3·625	3·960	− 8·4	Oct.	4·437	5·170	−14·3
Sept.	3·516	3·940	−10·7	Nov.	4·472	5·130	−12·8
Oct.	3·475	3·830	− 9·2	Dec.	4·599	5·150	−10·7
Nov.	3·426	3·790	− 9·5				
Dec.	3·495	3·880	−10·0	1923			
				Jan.	4·656	5·070	− 8·2
1921				Feb.	4·695	5·070	− 7·4
Jan.	3·737	3·960	− 6·7	Mar.	4·694	5·040	− 6·9
Feb.	3·872	4·020	− 3·7	April	4·656	5·000	− 6·8
Mar.	3·910	4·180	− 6·5	May	4·626	5·010	− 7·7
April	3·931	4·100	− 4·1	June	4·613	5·020	− 8·1
May	3·978	4·110	− 3·3	July	4·581	5·000	− 8·5
June	3·785	4·080	− 7·3	Aug.	4·558	5·050	− 9·6
July	3·627	4·080	−10·9	Sept.	4·542	5·060	−10·3
Aug.	3·648	4·130	−11·6	Oct.	4·519	5·030	−10·1
Sept.	3·723	4·130	− 9·7	Nov.	4·372	4·850	− 9·7
Oct.	3·876	4·350	−10·9	Dec.	4·362	4·730	− 7·6
Nov.	3·965	4·520	−12·3				
Dec.	4·141	4·560	− 9·4	1924			
				Jan.	4·268	4·670	− 8·6
1922				Feb.	4·305	4·630	− 6·8
Jan.	4·220	4·610	− 8·4	Mar.	4·292	4·650	− 7·7
Feb.	4·350	4·750	− 8·4	April	4·352	4·570	− 4·7

[1] Calculated from the U.S.A. "Bureau of Labor" and U.K. *Financial Times* index numbers.

Now since the suspension of the gold standard, a genuine purchasing power parity has hardly had time to establish itself, owing to time-lags due to the existence of stocks of commodities purchased earlier in the year. For what the available calculations are worth, during November and early December the purchasing power parity was \$4.35, for British wholesale prices were 10 per cent above their level of last September and American prices slightly below. This figure, of course, is neither exact nor permanent, and is on the whole likely to fall,

as British stocks are consumed and have to be replaced and British internal prices rise. Still, even allowing for any likely fall, it is unreasonable to fear that it will go as low as the rates of \$3.30 and \$3.40 quoted for sterling during December.

Thus all the evidence is in favour of a partial recovery in sterling during the spring, whose limits may be anywhere between \$3.60 and \$4.10. These limits possibly demarcate the boundaries within which the purchasing power parity of sterling will lie and to which current exchange rates should approximate. It is needless to add that even so general deductions as these are liable to be upset by unforeseen developments, both economic and political. All that this analysis seeks to establish is that judging by the data available in December the balance of probability lay in favour of an early but limited appreciation of the pound.

Finance and Industry

(14) The Money Market—*continued*

THE next point to define is the rates at which the money market conducts its affairs. The pivotal rate is Bank rate, which more specifically is " the minimum rate at which the Bank of England will discount bills of exchange for others than its customers." Bank rate bears the same relation to the money market as the North Pole does to the world. Everything revolves round it, but little or no business is transacted at it. Even when the Bank buys or sells bills on its own account, it does so not at Bank rate but at rates agreed upon between itself and the market.

Next come the various market rates of discount, and here a warning is necessary that notwithstanding the rates quoted in the daily Press, there is never a single or precise rate current in the market. To begin with, the rate varies with the date of the bill, the general rule being the shorter the bill, the lower the rate. The reason for this is obvious. The buyer of a short bill has to hold the bill for less time than a long bill, and so the money invested in the bill is not at risk for so long. Consequently he is prepared to pay a slightly higher price, and as explained in previous articles a low discount rate denotes a high price for bills.

Rates also vary between different stages in a bill's passage through the money market to its final holder, for each intermediary tries to secure a small turn or profit in the form of a margin between his buying and selling rate. This margin, it should be noted, is as small as $\frac{1}{16}$ or even $\frac{1}{32}$ per cent, and this shows how little the market charges for its highly specialized services, and its liability on the bills as an endorser. As a general rule a bill-broker or discount house will buy bills from a client at a slightly higher rate, this being known as the rate charged for bills. If he re-sells the bills in the market, he will try for a slightly lower rate, while if and when the bills are sold again to a final holder, possibly a British or foreign bank, the seller will try to get a still lower rate. There is rarely as much as $\frac{1}{8}$ per cent spread between any of these rates, but the spread is enough to make it impossible to quote a single precise rate as being current at any one time. It is also obvious that inasmuch as discount rates vary from day to day and even from hour to hour, a bill-broker may often fail to secure his small turn, or conversely obtain a far larger turn than is represented by the small spread between discount rates. For example, if a broker buys bills at $3\frac{5}{8}$ per cent one week with Bank rate at 4 per cent, and finds Bank rate go to 5 per cent, and market rate to, say, $4\frac{3}{4}$ per cent before he sells the following week, he will come out a loser. Conversely, if in the meantime Bank rate falls to $3\frac{1}{2}$ per cent, and market rate to 3 per cent, he will get more than his normal turn of $\frac{1}{16}$ or $\frac{1}{32}$ per cent.

Discount rates also vary according to the class of bill, this being especially true at times like the present, when confidence is impaired. "Market rate" usually means the rate on three months' bank bills, that is, bills accepted or endorsed by a London bank or accepting house, and these command the finest (i.e., lowest) rates. Fine trade bills—that is, bills carrying commercial names of high standing but no name of a London bank—normally command a rate slightly higher (or worse) than bank bills. "Hot" Treasury bills, on the other hand, although dealt in (as their name implies) during the week in which they are paid for and with their full three months to run before maturity, to-day command the finest rates of all, the reason being that they are based on the credit of the British Government. This explanation of market discount rates should suffice to explain both the range of rates (e.g., $5\frac{3}{4}$–6 per cent for three months' bank bills and $6\frac{1}{2}$–7 per cent for trade bills)

quoted in the money market columns of the daily Press, and also the comments on the various operations in the market that appear there as well.

Next come the rates charged for loans to the market, and here too it is impossible to quote a single or precise rate. When the market is driven to borrow at the Bank of England, the rate charged is ½ per cent above Bank rate, and the loan is made for not less than a week. The clearing banks' normal minimum rate on their loans to the market, both for a day and a week, is one per cent below Bank rate, this rate being largely determined by the fact that they pay normally on their London deposits a rate of 2 per cent below Bank rate. Other lenders, such as Eastern and foreign banks, have no fixed rates, and the rate usually differs between one bank and the next, as a bank with large surplus funds will quote a lower rate than one with only small surplus funds. Even the clearing banks raise their rates above their minimum when they are short of money. Again, lenders will often charge one rate for day-to-day money and another for weekly loans or fixtures, and will charge one rate for new money (i.e., a loan to a fresh borrower) and another for renewals (i.e., the renewal of outstanding loans). The rate for renewals tends to be more stable than that for new money, as a bank, by varying the latter, can attract or repel fresh borrowers.

While loan rates are directly connected up with Bank rate, it may not be quite so clear why discount rates are usually anything from $\frac{1}{16}$ to just over 1 per cent below Bank rate. It is easy to see why the discount rate on short bills eligible for discount at the Bank of England should be below Bank rate, for the Bank engages to discount such bills at Bank rate without limit, and if the market rate rose above Bank rate, all and sundry would make a certain profit by buying bills at market rate and re-selling them to the Bank at Bank rate. The three months' market rate of discount, however, seldom if ever rises above Bank rate, partly because three months' bills in the course of time turn into eligible short bills, and partly because the net interest earned by a holder is the difference between the market rate at which he bought them and the cost to him of his loans from the banks. Competition drives market rate down fairly closely to his loan rate which, as previously stated, is, in so far as the clearing banks are concerned, usually 1 per cent below Bank rate.

For these reasons market rate will, as a rule, fluctuate between Bank rate as an upper limit, and the clearing bank's loan rate as a lower limit. When money is tight or confidence is lacking, so that there is little demand for bills, market rate will rise practically up to Bank rate, which is then said to be "effective." When bills are scarce (as in times of low commodity prices and depressed trade) and money is plentiful, competition for bills will drive market rate down even below the clearing banks' loan rate, and in these circumstances bill-brokers are working at a loss. Bank rate is then said to be "ineffective," or alternatively, the market is said "to have broken away from the Bank," and in the spring of 1930 the market on one or two occasions broke away from the Bank to such an extent as to force a reduction in Bank rate.

The Bank, however, can often bring about a rise in market discount rates by selling bills in the open market out of its own portfolio. It did so very successfully in January, 1931. This power of the Bank will be considered at length in a subsequent article.

The bill-broker's profits arise in two different ways. The first is if he buys bills to hold until their maturity. In this case his profit arises from the margin between the return to him on his bills, and this is governed by the rate of discount at which he bought them, and the interest he has to pay on his loan from the banks. The first is fixed for good or for evil on the day of his purchase, but the second varies continually according to changes in Bank rate and the state of the money market. He may have bought three months' bills at 4½ per cent with Bank rate at 5 per cent and his loans costing him 4 per cent, and this gives him a turn of ½ per cent. The next week money may run up to 4½ and even 5 per cent, until finally he is forced to borrow from the Bank for a week at 5½ per cent, leaving him with a running loss of 1 per cent. A week later he may get out of the Bank but only at the cost of paying 5¾ per cent for new money for three days in succession. Then he may reap his reward for not re-borrowing from the Bank for another week, for the whole position may change, and money cheapen to 3½ per cent for loans outside the clearing banks. All these rates have to be set against the discount of 4½ per cent he is earning on his bills. Again, during the three months Bank rate may go up or down, and with Bank rate the cost of his loans. In short, every time a bill-broker buys a parcel of bills he has

to estimate the likely trend of the market and the cost of his loans for weeks and months ahead.

Secondly, there are profits to be made and losses incurred through variations in market discount rates. A bill-broker may tender one Friday for Treasury bills and secure an allotment at, say, 4⅝ per cent. The next week when he comes to pay for his bills, he finds the rate for "hot" bills is 4½ per cent. So he promptly sells his bills and takes a turn of ⅛ per cent almost without having to pay for his bills himself. Again, he may buy three months' bills and hold them until they become short bills and then succeed in selling them at a finer rate, reinvesting the proceeds in a further parcel of three months' bills. Alternatively, he may one day find himself so squeezed for money that he has to discount some of his bills at the Bank of England at Bank rate, which may involve him in a loss of ½ or ¾ per cent.

The clearing banks which buy bills to hold until maturity set the return on their bills off against their deposit rates. On ordinary London deposits a rate of 2 per cent below Bank rate is paid, but on deposits "fixed" with the banks for several weeks or months higher rates are often obtainable through negotiation; and whatever happens to Bank rate or other rates in the meantime, these negotiated rates hold until the period for which the deposit is fixed comes to an end. A bank which fixes money for three months and buys three months' bills at the same time is obviously unaffected by future changes in Bank rate or market rates, but in times of falling rates, a bank which is continually having to replace its bills on a falling market will tend to come out a loser.

Discount houses pay rates on deposits from their clients which vary with Bank rate. Hence a fall in Bank rate benefits them in respect of bills bought at rates current before the fall occurred. Accepting houses benefit on balance from low money rates, for the better the price obtainable for bills in the London money market, the more bills are sent to London for acceptance and discount. When money rates are high, London tends to lose acceptance business to other financial centres.

Notes of the Month

The Money Market.—Accumulations of funds by the Treasury in preparation for the 5 per cent War Loan dividend made money very stringent up to the end of November, and

on one occasion special buying of bills was necessary in order to save the market from having to borrow at the Bank. On December 1st the War Loan dividend was paid, and that operation released to the market not only all the Treasury's accumulated funds but a further large sum which the Treasury had to borrow on Ways and Means from the Bank of England. The result was that money became so plentiful as to be almost unlendable, and outside the clearing banks loans were obtainable as cheaply as 3 per cent in contradistinction to the rates of 5½ and 5¾ per cent current in November. Although the Bank of England was fairly quickly repaid, money remained cheap and plentiful for the first half of December, as many recipients of the War Loan dividend kept it lying idle at the banks in readiness for their January income tax payments instead of re-investing it in accordance with their usual practice. It was also noticeable that less currency than usual was withdrawn from the banks for Christmas trade, for during the four weeks ended December 23rd the note circulation only expanded by £15·6 millions, against £28·6 millions in 1930. This meant that the banks had more cash at their disposal than usual, which again made money easier, and it was only during the three or four days immediately preceding Christmas that currency withdrawal began to make money at all stringent. On Christmas Eve the market began its usual borrowings from the Bank of England in preparation for the end of the year. As these funds were only required on December 31st money again became very plentiful, and remained so until the last day of the year. The discount market was inactive during December. Three months' bank bills continued to be dealt in at 5¾ per cent and upwards as far as Bank rate. The Treasury bill tender rate hardened slightly as the month progressed, as the market was disinclined to purchase bills immediately before the end of the year. For the same reason the rate on "hot" Treasury bills rose from 5½ to 5$\frac{11}{16}$ per cent immediately before Christmas.

The Foreign Exchanges.—The fall in sterling to $3.23 at the end of November and its subsequent partial recovery to $3.39 at the end of the year are fully discussed elsewhere in this issue of the Review, while the actual rates for sterling in the leading gold currencies are on record in the statistical appendix. It is noticeable, however, that there are now in existence a fair number of currencies that have separated from gold and have

a tendency to link up with sterling. Thus the three Scandinavian exchanges are now at approximately their normal parity with the pound, while the Canadian, Argentine and Brazilian rates have not appreciated against sterling since August to the full extent required by the depreciation of sterling against gold. In December, too, Japan was forced by a sustained efflux of gold to the United States to suspend the gold standard, and the yen has since fallen almost to its normal parity with the pound. Among Empire currencies the discount of Australian pounds against sterling has narrowed so that £125 Australian are now quoted for £100 sterling in place of £130. South Africa still maintains the gold standard, but only with some difficulty and internal political controversy, and Holland's retention of the gold standard is seriously affecting the competitive power of the Dutch East Indies against similar British produce. As the New Year progresses it is not impossible that a definite pool of currencies linked to sterling will gradually widen and develop, and this will place the world's monetary problems in an entirely new perspective.

The Stock Exchange.—December proved a dull and disappointing month. International uncertainties, the Basle Conference, the Hungarian moratorium and the Japanese suspension of the gold standard all proved disturbing factors, while at home the imminence of the January income tax payments meant that few people had much money to invest. British Government securities opened the month badly owing to the fall in the pound, and have since displayed little real strength. Among foreign bonds the depreciation of sterling led to some monetary activity in French rentes, but other European issues were weak, and Japanese bonds were depressed by the suspension of gold payments by Japan. Home railway stocks lost ground owing to scattered liquidation and the absence of any buying movement, but Argentine rails were steadier on the news of satisfactory crops. Early in December industrials responded slightly to the stimulus of the renewed depreciation of sterling, but have since been an idle and listless market. Oil and base-metal shares were also dull, while Kaffirs failed to respond to the December dividend announcements. At times the rubber market showed a tendency to improve in sympathy with rumours of an impending Anglo-Dutch agreement on restriction, but there were never any signs of genuine activity.

Overseas Trade.—November imports improved to £83·2 millions against £80·7 millions in October. This increase was largely due to a welcome expansion in raw material imports from £11·9 millions in October to £15·3 millions in November. Imports of cotton, wool, hides and wood pulp were greater in volume than in November, 1930. Exports of British goods were disappointing, the November total being £31·9 millions, against £32·8 millions in October. It is clear that the stimulus of the depreciation of sterling is slow in taking effect.

Description	Jan.-Nov., 1930	Jan.-Nov., 1931	Increase (+) or Decrease (−)
	£ mill.	£ mill.	£ mill.
Total Imports	955·2	785·2	−170·0
Retained Imports	873·5	726·7	−146·8
Raw Material, Imports	230·2	154·9	− 75·3
Total Exports, British Goods	532·1	357·1	−175·0
Coal Exports	42·2	31·7	− 10·5
British Manufactured Goods, Exports..	412·1	267·9	−144·2
Re-Exports	81·7	58·5	− 23·2
Total Exports	613·8	415·6	−198·2
Visible Trade Balance	−341·4	−369·6	− 28·2

The cumulative totals for the first eleven months of the year make it clear that the 1931 adverse visible trade balance will be considerably greater than that of 1930. For this the fall in exports and especially in re-exports is chiefly to blame. The total value of imports has been swollen during the last few months both by "abnormal" imports and by the depreciation of the pound which has added to the sterling cost of foreign commodities, and this has accentuated the adverse trade balance.

Home Reports

The Industrial Situation

December was in many ways a somewhat disappointing month. The expansion in the note circulation was less than usual and this suggests that Christmas trade was checked by the general restriction of purchasing power and by the imminence of the heavy January income tax payments. It also became clear that the stimulus to British trade arising from the suspension of the gold standard has not yet taken effect, and

that export business in particular is prevented from developing by the world depression and the numerous duties and other restrictions that foreign countries have lately felt obliged to impose upon imported goods. The British coal trade is seriously affected by the new French surtax, the iron and steel industry has lost ground, and there has been some recession in the cotton and wool textile industries. Certain trades, such as motor manufacture, rayon and linen, report an improvement, but in general the year has closed amidst an atmosphere of doubt and uncertainty, and until the outstanding grave international problems have been resolved, it is difficult to see any firm basis for British or world commerce.

Agriculture

England and Wales.—Rain hindered outdoor work, especially on heavy land. Autumn sown corn appears to be strong and healthy, but much of this year's potato crop has been affected by disease and damp. Cattle and sheep did fairly well in November, but milk yields fell away. Winter keep is plentiful.

Scotland.—In arable districts cultivation is well advanced, particularly in Mid and Southern Scotland. The sowing of wheat was completed in good season and under favourable conditions and by the beginning of December most fields were showing a strong and healthy "braird." In the livestock markets trade has been steady with prices slightly easier, sheep especially being in abundant supply. Trade for store cattle generally has been slow. Grain has been somewhat on offer and prices have just held, but potatoes show a sharp advance, holders asking up to 30s. per ton more for all kinds.

Coal

Newcastle-upon-Tyne.—There is a quiet and steady improvement, partly seasonal, but there are enquiries from quarters which lately have not taken North Country Coal. Northumberland Smalls are in poor demand and stocks are growing.

Cardiff.—Export trade is still restricted by the French surtax of 15 per cent on British coal and there is no sign of any revival in demand. As regards the prompt position all classes of steam coals are readily obtainable at minimum prices. The coke market is not so strong as it has been recently, probably

owing to the uncertainty with regard to tariffs on the import of iron and steel. The market for best quality anthracites is active.

Newport.—In November there was a heavy decline in exports as compared with October and shipments since have been at an even lower level.

Swansea.—Business in anthracite is fairly active and prices are maintained. Duffs are still offered in excess of requirements. It is reported that Messrs. Elders & Fyffes, Ltd., fruit importers and shipowners, will call at Swansea and Port Talbot for bunkers, as an experiment, instead of bunkering upon the Continent.

East of Scotland.—Most of the output of large coal continues to be absorbed for home consumption. Navigation coal is meeting a fair demand with prices unchanged, and steam coals are also well taken up, prices for this class being inclined to harden. Trebles are easier owing to a falling off in the French demand, but doubles and singles have advanced.

Glasgow.—Export trade was hampered by the operation of the quota system which caused a slowing down of production at some pits and a complete cessation of work at several others. Forward business was slow, due to Polish competition, the hoarding of coal imports, restriction of foreign exchange facilities abroad and the French surtax of 15 per cent.

Iron and Steel

Birmingham.—Most works are restricting orders until the New Year and specifications on old contracts are difficult to obtain. A fair amount of foreign pig-iron has been landed, but the exchange position is an obstacle to new business. Heavy steel mills have good orders, though specifications are slow in coming forward. Owing to the depreciation of sterling Continental prices are lower.

Swansea.—Enquiries for tinplates are much more plentiful and prices have hardened.

Glasgow.—Business was restricted owing to uncertainty as to the Government's tariff intentions and the instability of sterling, which deprived makers of the advantage expected after the suspension of the gold standard. Generally the works were much in need of orders, though there was a slight improve-

ment in demand for materials necessary to be shipped before the end of 1931. The enquiry from overseas, however, was good especially on far eastern account, though Japan's action in going off the gold standard has depressed makers' hopes of increasing export trade.

Engineering

Birmingham.—The heavy trades are not doing well, but the seasonal programmes in the motor trade are making factories fairly active. Makers of small machine tools and general tools are busy.

Coventry.—There is much room for improvement in the motor car industry, but a few factories are actively engaged.

Luton.—There is little or no Home motor trade, but the export trade has definitely improved. The lorry trade is better. Hydraulic engineering is still very dull with brighter prospects, and general engineering is distinctly better.

Manchester.—Some big orders are reported for machinery.

Wolverhampton.—A fair demand is being maintained in the general engineering section, and reports from heavy engineering firms are encouraging. The slow improvement in the Hollow-ware trade is being maintained, though the lock trade is quiet.

Glasgow.—Engineering generally is quiet, though the prospects in marine engineering are better but still far from bright. This increased activity is due to more orders for tonnage during recent months and a larger volume of repair work.

Metal and Hardware Trades

Birmingham.—The rolled brass and copper industry is improving, owing to the continued demand from the motor trade and to orders, hitherto given to the Continent, being placed locally. There is a larger demand for brass and copper tubes.

Cotton

Liverpool.—The turnover on the spot and for forward delivery has been of only moderate dimensions for most of the period under review, but the ratio of demand for American

as against other growths has increased, the enquiry centring chiefly on low grade staples of Texas and Memphis. Egyptian growths have been in fair general demand, whilst good sales of Russian have been made at hardening rates. The trade outlook, however, is not so promising as it was three months ago, for the initial impetus given to the industry in September by this country's abandonment of the gold standard has now lost some of its force, whilst the recent action of Japan in following our example in its gold standard policy has created a further adverse influence. The Futures section of the market has been inactive, with only minor variations in prices, due for the most part to sterling fluctuations. Quotations on a gold basis have, in fact, remained surprisingly steady in view of the overwhelming supply situation in America, where the latest official figures make a total supply (as at the beginning of the present cotton season on August 1st last) of 26 million bales to provide for the consumptive needs of industry at the present rate of just half that quantity (of American) per annum. The Government-supported holding movement is doubtless responsible for this continued firmness, but confidence in the current range of prices is likely to be lacking until world consumption shows definite signs of general expansion.

Manchester.—Buyers are cautious and the political situation is not conducive to stimulating optimism. The American yarn market remains quiet and generally sales have covered limited quantities. Egyptians have not been moving so well, but prices remain firm owing to price regulation. The rise in the price of silver has temporarily stimulated the demand from China. Now that Japan is off the gold standard there is likely to be renewed competition in India, while it is feared that Gandhi will launch a more intensive boycott. Though the new duties should have a beneficial effect, the financial uncertainty of Europe in general militates against any improvement in trade.

Wool

Bradford.—The recent improvement is being maintained, and though business on new account is quiet, both spinners and manufacturers have enough orders on their books to keep them busy for some time to come. Raw material values are still considered to be on a fairly low basis.

Huddersfield.—The fine worsted section, which is mainly export, has not improved, though manufacturers of lower class woollens and ladies' goods are well employed.

Hawick.—The Border tweed trade is almost stagnant, Spring orders being practically completed. The demand for next Winter's patterns is also below normal—as much as 50 per cent in certain cases—the financial stringency making merchants chary of adding to their commitments, and except for a few engaged on special orders most of the tweed factories are on short time. Hosiery and underwear manufacturers are doing only a moderate business and spinners and dyers could also cope with more work. Wool prices continue firm.

Other Textiles

Belfast.—Supplies of flax are very small and some markets have not yet opened, though any business executed has been at higher prices. Spinners busy on contracts that will take up production for several months to come are not sellers of yarn, their chief concern being the steadily mounting prices of flax and the non-arrival of supplies contracted for delivery months ago. Merchants report some falling off in orders, especially from the United States, but weavers are still busy on outstanding commitments and some new business in white and coloured linens is coming forward.

Dundee.—Business in the jute market is less active. Buyers of manufactured goods are satisfied for the present and prices are nominal.

Dunfermline.—While there has been considerable enquiry in the Fifeshire linen trade, the prices that are being offered are not such as to tempt manufacturers, whose reluctance to do business is accentuated by uncertainty regarding the obtaining of further supplies of raw material, partly owing to currency difficulties. Still, prospects are better and there is a fair amount of work at present on hand.

Clothing

Bristol.—Though the depression is still evident, forward orders for Spring delivery have improved as compared with last year. Prices are fairly firm which promises well for this year.

Leicester.—In the hosiery trade, though home trade is better, there is no improvement in the export trade in spite of the fact that more confidence is felt in the future.

Luton.—There are very few orders in the ladies' hat trade, but an improvement is hoped for shortly.

Leather and Boots

Bristol.—Conditions have not improved to any great extent, though as regards leather there was a small price boom due to the rate of exchange, but this was by no means a trade boom. In the boot and shoe section there is very little demand, but reports show that for the latter half of the year trade was better than in the former half. Employment is moderate and stocktaking has already begun. Prices show a tendency to rise and buyers are expected to place their orders earlier in the New Year than usual.

Leicester.—The home trade, though fair, is not so good as last month. The extra orders last month were probably due to an expectation of rising prices. The retail trade is quiet.

Northampton.—Immediately after the suspension of gold payments consumers hastened to lay in stocks of leather imported at the old prices, and the trade is now consequently very quiet. Boot manufacturers are also now inactive, as business is checked by the rise in leather prices due to the depreciation of the pound and by the increased customs duties now being imposed on British goods in foreign markets.

Shipping

Hull.—Tonnage is obtainable without difficulty, but there is a tendency towards slightly lower rates.

Liverpool.—The volume of outward enquiry was discouraging, and with tonnage in ample supply rates were again dull and unremunerative. As regards the homeward routes, rates continued firm in the River Plate section on a steady demand for grain chartering.

Newcastle-upon-Tyne.—Chartering is fairly active with a slight improvement generally on recent fixtures.

Cardiff.—The freight market remains quiet and at the moment there is no sign of any improvement. Tonnage, however, is not too plentiful and with a slight increase in demand it is thought that rates would advance.

Newport.—Freights remain the same and business is slight.

East of Scotland.—Towards the end of December there were over 20 vessels on loading turn at the Forth coaling ports. Other branches of shipping at Leith docks are normal, with the Continental trade fairly active.

Glasgow.—Tonnage was in moderate demand during early December, but later enquiry fell away. Throughout the month owners were not inclined to press for employment for their boats, and rates were steady.

Foodstuffs

Liverpool.—Trading in wheat has been on a much smaller scale during the present month, with relatively light arrivals and only a moderate demand from millers. The dominating influence has been the fluctuation of the sterling exchange, but, in spite of the generally weakening tendency of the pound, wheat quotations have also followed a downward trend in response to lower world gold prices, which have fallen afresh to the record low level of September. For this, the weakness of the American stock markets is partly responsible, but the underlying factor of a substantial surplus of supplies remains unaltered, and, though a failure in one of next year's major crops might quickly change the situation, the fact must not be overlooked that in a poverty-stricken and quota-ridden Europe the demand for imported wheat may quite reasonably be sub-normal during the remainder of the season. In maize, large shipments have arrived, and, with a good portion of this failing to go into consumption, quotations have weakened. Continental bacon arrived in large consignments at record low prices and consumption was good, but in American bacon and hams trade was quiet. The lard market was firm owing to short supplies. Heavy arrivals of butter from the Colonies forced prices to recede 10s. to 15s. per cwt.; a good consumptive demand was found at the low rates, but forward shipments continue in excess of last year. The Colonial cheese trade proved slow, the demand not being large enough to cope with

even the small supplies; whilst home makes were comparatively dear and scarce. In the canned goods section, both meats and fruits experienced a moderate enquiry at unchanged rates.

Fishing

Lowestoft.—There has been a decrease of landings both as regards tonnage and value as compared with November, 1930, which is entirely due to the difficulties of the herring trade. The curing season was one of the shortest on record, and only about two-thirds of the usual amount were cured. This was estimated to be the limit of the probable demand from the Continent.

West of England.—The herring season started in November, but bad weather interfered and catches were small. It would appear, however, that the season is late as there is now some sign of improvement. Prices, however, have been good and the quality is excellent. Landings of first-grade white fish have been abundant with fair prices realized.

Scotland.—The Scottish herring fleet has now returned from English waters but results generally have been very disappointing, some of the boats having barely covered expenses. Fair supplies of white fish are being caught by those boats engaged on line fishing round the coast and satisfactory prices are being realized.

Other Industries

Carpet Making.—Kidderminster manufacturers are busy. There is a great demand for Axminster piece goods and squares, and efforts are being made to increase production. Orders are principally from the home market due to the unsettled condition of Australia and New Zealand, our principal outlets abroad. Trade with Holland is good, but other Continental markets are disappointing.

Chemicals.—Trade shows signs of improvement.

China Clay.—The improvement during September was maintained for October, though the adverse balance for the year is still large.

Paper-making and Printing.—The Edinburgh paper-making trade is not so busy as it was a month or two ago, and demands

for both home and export have fallen off. The printing trade is extremely depressed, and in spite of extra work due to Christmas there is a large amount of unemployment.

Pottery.—Business was very quiet in the fine China trade, but even just before Christmas the earthenware section continued to keep fairly busy.

Timber.—During November trade was quiet, and there is no doubt that the economy campaign will cause a falling off in building. The case trade is a little better, though not normal. Prices, however, keep steady at the recent advance and supplies of good quality in main sizes are scarce. Few contracts will be made for 1932 until something definite has been arranged about Russian goods.

Dominion Reports

Australia

From the National Bank of Australia Limited

Higher prices for wheat and an anticipated yield above the average, and the maintenance of wool prices with a large wool clip have done much during the past month to lighten the trade depression that has been prevalent for so long. There is a stronger tone on the Stock Exchange and an improvement in the overseas financial position, while exports are well maintained and imports halved. For the past four months, there has been a favourable trade balance of nearly £10,000,000 (English currency). Recent rains assure ample summer feed and water for stock and a long dairying season. The results of the Federal Elections are greeted as a satisfactory basis for a renewal of the confidence of the business world.

Canada

From the Imperial Bank of Canada

The success of the National Service Loan for which over $215,000,000 was subscribed, has had a marked effect in increasing confidence, and there is a considerable improvement in general trade conditions. The advance in wheat prices in October and November has not been maintained, but as sales by farmers and Canadian exports increased during the period of advancing prices there has been much movement of grain recently with resultant benefits to railway and steamship

companies. An unusually mild fall has assisted the constructional trades, and helped farmers with full ploughing and late pasturage.

India

The Bombay cotton market remained firm during November, but purchases by Japanese spinners have been limited, and in most foreign markets American cotton was on the whole cheaper than Indian. There was a better demand for Manchester goods, some old high-priced stocks have been cleared, and dealers were more inclined to place fresh orders for forward delivery. There was also a better enquiry for Japanese goods. A good turnover of local goods took place at the Hindu New Year early in November, but there was a slight set-back towards the end of the month. Still most mills are well placed for orders. Calcutta reported a good demand for jute early in November, but this was not entirely maintained. There were good sales of common teas and dust, but the better qualities were only disposed of with difficulty. Rangoon reported a very irregular demand for rice. There was a better enquiry for timber, but little fresh forward business. Purchases of hardware are held up by exchange fluctuations and other uncertainties.

Irish Free State

Trade returns for the first ten months of 1931 show a falling off in imports of £6,100,000 and in exports of £7,400,000; most of the latter contraction being due to the decline in shipments of livestock, bacon and hams, and butter. Trade in livestock continues slow, but store cattle still find a ready market with prices well maintained.

Foreign Reports

France

From Lloyds & National Provincial Foreign Bank Limited

Exports for the first eleven months of 1931 amounted to Frs. 28,324 millions, against Frs. 39,593 millions for the corresponding period of 1930, while imports have fallen to Frs. 39,392 millions from Frs. 48,000 millions for 1930. The adverse trade balance is now Frs. 11,068 millions compared

with Frs. 8,406 millions at this time in 1930. The present adverse balance is 28 per cent of the total value of imports for the eleven months which compares with 18 per cent in 1913. The Bourse remained weak, owing to the further fall in commodity prices and the general international situation.

Bordeaux.—The wine situation is much firmer and merchants' stocks are being steadily reduced. The resin market is generally weak.

Le Havre.—An increased demand for coffee has resulted in prices continuing firm. Cotton has fluctuated within narrow limits and prices are about 15 points lower than a month ago.

Lille.—The textile market is acutely depressed. The fall in sterling and the introduction of tariffs are causing much anxiety, and British spinners' prices are now much below those prevailing in Northern France. The cotton trade is being conducted on a purely hand-to-mouth basis, and there is little demand for linen yarn.

Roubaix.—Trade is very bad, as the British import duties coming on top of a period of unparalleled depression have acted as the last straw. The market in tops is weak, while wool, which was thought to have reached the very depth of depression, has fallen still further. Few combers are working at more than 35 per cent of their normal rate of output, and spinners are only working about 24 hours a week. Makers of men's suitings are working four days a week, and those of dress-goods only two or three days a week. Pending the re-opening of the British market the outlook is very dark.

Marseilles.—There has been considerable speculation in ground-nuts, but news of a record Nigerian crop of 200,000 tons against 140,000 tons last year depressed prices substantially. Olive oil is quiet, but copra prices have been depressed by heavy arrivals.

Belgium

From Lloyds & National Provincial Foreign Bank Limited

Business is very poor. Iron and steel prices continue to fall and are now 40 per cent lower than in 1929. The demand for coal is bad and stocks now amount to over 3,400,000 tons. The glass and textile industries are in no better condition and will be much affected by the British import duties.

Germany

The business situation remains very strained and depressed. One-third of the industrial life of Germany has been brought to a standstill, and by December 1st unemployment had reached 5,000,000 out of about 21,000,000 employed persons. Agriculture is seriously affected by the crisis, and farmers are finding it difficult, if not impossible, to meet their debts. The coal trade is having to contend with keen British competition, and export demand for steel is seriously curtailed by the depreciation of sterling and the difficulties of the Continental steel trade. Credit is very hard to obtain, and manufacturers are unable to obtain advances at less than 12 per cent. As a result only very small stocks of raw materials can be carried.

Holland

Foreign trade is steadily shrinking; and many industries are being badly hit by Britain's departure from the gold standard, the depreciation of sterling and the imposition of tariffs. The Government and municipalities are adopting measures of retrenchment, and private enterprises are endeavouring to follow suit. In the textile industry, however, an attempt to reduce wages has resulted in a strike involving nearly 14,000 workers.

Norway

The depreciation of the Norwegian kroner has given an impetus to the export industries, but the future is not regarded with much optimism, especially as the kroner has lost one-fourth of its value, and a system of foreign exchange control has had to be established. The prospects of the timber trade are far from bright. It is true that prices during the past month have remained substantially unchanged, but little business has passed and any further reduction in prices will lead to considerable curtailments of shipments.

Sweden

The raising of the French tariff by 15 per cent and the passage of the Abnormal Importations Bill in Great Britain have come as unpleasant surprises to the Swedish export industries,

and have caused a heavy falling off in business. In wood goods, which are not affected by the new English customs duties, unusually little interest is being shown. In the pulp industry, the sulphite and mechanical pulp sections are very depressed, and it is only in the sulphate pulp section that conditions are at all favourable. Trade in wrapping paper has been seriously affected by the new British duties.

Denmark

Trade is seriously hampered by foreign exchange difficulties and merchants are only operating on a hand-to-mouth basis. The freight market is extremely depressed, and an increasing amount of tonnage is being laid up. The outlook for butter is not good, owing to the increased quantities now being imported into England from the Dominions, while the prices of eggs and bacon have also fallen, the latter having touched a new low level which is bringing farmers to despair.

Switzerland

From Lloyds & National Provincial Foreign Bank Limited

The recently imposed tariffs in England have seriously affected Swiss exports, and in nearly every direction the trade outlook is unsatisfactory and unemployment is increasing. The Government have given the Federal Council full power to deal with the situation and, in particular, to meet the increase in unemployment and to restrict imports by means of customs duties and licences. These powers are to remain in force until the end of 1932.

Spain

Heavy increases in the Argentine tariffs against many articles of Spanish production and the reported increase in the Belgian duties on oranges, have caused considerable alarm. Low wheat prices are depressing agriculture, and a short crop is anticipated in 1932 owing to a reduction in acreage. The Government have sanctioned an increase of 3 per cent in the rates for goods traffic on railways, and have also introduced a bill authorizing the expenditure during the next three years of Ptas. 400,000,000 on public works.

Morocco

From the Bank of British West Africa Limited

Business was restricted by the depreciation of sterling and also by the lack of rain which is making the crop outlook uncertain. Demand for Manchester goods is a little better, but British manufacturers in general have not yet availed themselves of the currency advantage. Stocks of barley are heavy, but are being held back pending an improvement in the crop outlook. Urban construction work in Casablanca is extremely active.

United States

The better sentiment in business noticeable a month ago appears to have been dissipated, though commercial insolvencies during November, at 2,195, were on a rather less extensive scale than in October when they were 2,362 with liabilities at $60,659,612. Car loadings have fallen away, the total for the week ending November 28th being only 558,807, against an average of 760,000 for October. Retail business showed some revival just before Christmas, but price reductions were needed to stimulate demand. Non-ferrous metal prices have been weak, and the steel industry only operated in November at 30 per cent of capacity. Cotton ginnings up to December 1st were 15,000,000 bales, against 12,800,000 bales in 1930. With shipments below the 1930 level, the outlook is very uncertain, and a group of banks is making special arrangements to finance farmers who wish to hold their crops.

Japan

Export of silk textiles to European countries, British India and Australia have registered a striking gain. The cotton trade with the Yangste River and Tientsin is at a standstill, but in other directions it shows a remarkable increase. There has, however, been a great falling off in imports of raw cotton. Gold shipments continued to be substantial, well over 250,000,000 Yen having been shipped to America since the beginning of October, and in December this sustained outflow culminated in the suspension of the gold standard. It remains to be seen what effect this decision has upon trade.

Banking

1. BANK OF ENGLAND

Date.	Issue Department.		Banking Department.				
	Gold.	Notes in circulation.	Reserve and Proportion.		Bankers' Deposits.	Govt. Securities.	Discounts & Advances
				Per cent.			
1930.	£ mn.	£ mn.	£ mn.		£ mn.	£ mn.	£ mn.
Dec. 31 ...	*147·6*	*368·8*	*39·5*	*22·5*	*132·4*	*81·0*	*49·0*
1931.							
Dec. 2 ...	120·7	358·5	38·1	28·1	86·2	70·0	12·3
Dec. 9 ...	120·7	358·8	37·7	30·2	75·1	60·6	12·5
Dec. 16 ...	120·7	363·5	32·9	26·6	73·3	61·5	12·9
Dec. 23 ...	120·7	370·0	26·3	20·9	72·3	67·6	13·5
Dec. 30 ...	120·7	364·2	32·2	18·4	126·4	95·3	27·3

2. TEN CLEARING BANKS

Date.	Deposits.	Acceptances.	Cash.*	Call Money.	Bills.	Investments.	Advances.
1930.	£ mn.	£ mn.	£ mn.	£ mn.	£ mn.	£ mn.	£ mn.
November	*1,838·0*	*116·3*	*238·1*	*138·9*	*311·4*	*279·9*	*935·4*
1931.							
June	1,781·9	115·9	236·4	133·2	265·7	288·4	923·0
July	1,767·7	113·0	229·2	130·4	281·0	299·5	913·0
August	1,745·0	112·6	222·5	113·2	263·6	301·7	908·5
September	1,711·8	118·4	217·6	106·9	236·8	304·0	910·8
October	1,724·0	111·0	223·6	114·4	237·4	303·6	909·7
November	1,706·4	102·6	220·9	109·4	240·5	299·7	900·2

* Includes balances with other banks and cheques in course of collection.

3. LLOYDS BANK, RATIO OF CURRENT ACCOUNT CREDIT BALANCES TO TOTAL DEPOSITS

Year.	Ratio.	Month.	Ratio.		
			1929.	1930.	1931.
			%	%	%
1902	58·2	January	46·8	45·1	45·9
1914	49·9	February	45·9	44·2	45·1
1919	60·7	March	45·2	44·5	45·3
1920	56·7	April	44·9	45·1	45·0
1921	50·7	May	44·1	44·0	44·8
1924	51·0	June	44·5	44·4	45·4
1925	49·6	July	45·4	44·7	45·7
1926	48·6	August	45·3	44·4	45·7
1927	47·4	September	45·3	44·7	45·0
1928	46·4	October	45·6	44·8	45·3
1929	45·2	November	44·7	44·8	45·3
1930	44·7	December	45·3	46·0	

Money, Exchanges and Public Finance

1. LONDON AND NEW YORK MONEY RATES

Date.	London.			New York.		
	Bank Rate.	3 Months' discount Rate.	Day-to-day Loans.	Re-discount Rate.	90 Days' eligible Bank acceptances.	Call Money.
1930.	Per cent.	Per cent.	Per cent.	Per cent.	Per cent.	Per cent.
Dec. 31 ...	*3*	*$2\frac{5}{16}$*	*3—3½*	*2*	*2*	*3½*
1931.						
Dec. 2 ...	6	5¾—6	3½—5	3½	3⅛	2½
Dec. 9 ...	6	5¾—6	3½—5	3½	3⅛	2½
Dec. 16 ...	6	5¾—6	4—5	3½	3⅛	2½
Dec. 23 ...	6	5¾—6	4½—5	3½	3⅛*	2½*
Dec. 30 ...	6	5¾—6	2—3	3½	3	3

* December 21

2. FOREIGN EXCHANGES

London on	Par.	1930.	1931.				
		Dec. 31.	Dec. 2.	Dec. 9.	Dec. 16.	Dec. 23.	Dec. 30
New York	$4·866	4·85⅝	3·39	3·28⅛	3·44¾	3·42⅛	3·39⅝
Montreal	$4·866	4·86$\frac{7}{16}$	3·92½	3·94	4·27	4·17⅞	4·15⅜
Paris ...	Fr. 124·21	123·67	86¾	83¾	87⅝	87⅛	86$\frac{9}{16}$
Berlin ...	Mk. 20·43	20·38¾	14¼	13$\frac{15}{16}$	14⅛	14·40	14·25
Amsterdam	Fl. 12·11	12·06	8⅜	8⅛	8⅝	8$\frac{11}{32}$	8$\frac{15}{32}$
Brussels ...	Bel. 35	34·76¼	24⅜	23⅝	24¾	24·60	24$\frac{7}{16}$
Milan ...	Li. 92·46	92·75	66	63⅞	67¾	67¼	66$\frac{15}{16}$
Berne ...	Fr. 25·22½	25·04⅜	17$\frac{7}{16}$	16⅝	17$\frac{11}{16}$	17$\frac{17}{32}$	17$\frac{7}{16}$
Stockholm	Kr. 18·16	18·12¾	18	18⅛	18	17$\frac{31}{32}$	17$\frac{15}{16}$
Madrid ...	Ptas. 25·22½	46·20	40¾	39¾	40⅛	40⅜	40¼
Vienna ...	Sch. 34·58½	34·49	29*	28*	29*	30*	29½*
Prague ...	Kr. 164·25	163$\frac{15}{16}$	115	108⅛	116	115⅛	114½
Buenos Aires	47·62d.	35¾	40¾	41	40⅞	40⅞	40⅝
Rio de Janeiro	5·89d.	4$\frac{11}{32}$	4¼	4⅜	4⅜	4¼	4¼
Valparaiso	Pes. 40	39·92	27·50	26·80	28·50	28·50	28·50
Bombay ...	18d.	17$\frac{31}{32}$	18$\frac{5}{32}$	18$\frac{5}{32}$	18$\frac{5}{32}$	18$\frac{5}{32}$	18$\frac{5}{32}$
Hong Kong	—d.	13	17$\frac{5}{16}$	17⅞	17¾	17¾	17⅝
Shanghai	—d.	17	22$\frac{15}{16}$	23⅛	23¾	23¾	23⅜

* Nominal.

3. PUBLIC REVENUE AND EXPENDITURE

Revenue	To Dec. 31, 1931.	To Dec. 31, 1930.	Expenditure.	To Dec. 31, 1931.	To Dec. 31, 1930.
	£ mn.	£ mn.		£ mn.	£ mn.
Income Tax ...	76·5	79·3	Nat. Debt Service	252·3	254·4
Surtax	21·6	17·8	Northern Ireland Payments...	3·9	3·9
Estate Duties ...	48·4	60·3	Other Cons. Fund Services ...	2·1	1·9
Stamps	10·4	13·2	Supply Services	81·2	84·6
Customs	100·8	91·0	Ordinary Expenditure ...	574·9	576·9
Excise	90·9	95·5	Sinking Fund	23·4	39·1
Tax Revenue ...	350·8	359·1	Self-Balancing Expenditure...	50·2	51·1
Non-Tax Revenue	43·7	76·2			
Ordinary Revenue	394·5	435·3			
Self-Balancing Revenue	50·2	51·1			

Trade

1. PRODUCTION

Date.	Coal.*	Pig-Iron.	Steel.
1930.	Tons mn.	Tons thou.	Tons thou.
November	*4·9*	*384*	*434*
1931.			
June	4·2	324	429
July	3·8	317	429
August	3·8	276	357
September	4·2	248	401
October	4·4	284	457
November	4·5	296	459

* Average weekly figures for month.

2. IMPORTS

Date.	Food.	Raw Materials.	Manufactured Goods.	Total.
1930.	£ mn.	£ mn.	£ mn.	£ mn.
November	*40·6*	*16·5*	*21·6*	*79·4*
1931.				
June	33·4	14·1	20·2	68·6
July	35·1	13·6	20·7	70·1
August	31·8	12·5	20·1	65·3
September	33·6	11·2	22·6	68·3
October	40·8	11·9	27·2	80·7
November	38·6	15·3	28·7	83·2

3. EXPORTS

Date.	Food.	Raw Materials.	Manufactured Goods.	Total.
1930.	£ mn.	£ mn.	£ mn.	£ mn.
November	*4·8*	*4·7*	*32·7*	*44·1*
1931.				
June	2·6	4·0	21·6	29·4
July	2·7	3·8	26·5	34·2
August	2·6	3·4	22·0	29·1
September	2·7	3·7	22·2	29·8
October	3·4	4·3	24·0	32·3
November	3·4	4·0	22·9	31·9

4. UNEMPLOYMENT

Date.	1926.	1927.	1928.	1929.	1930.	1931.
End of—	Per cent.	Per cent.	Per cent.	Per cent.	Per cent.	Per cent.
January ...	11·0	12·0	10·7	12·2	12·6	21·5
February ...	10·4	10·9	10·4	12·2	13·1	21·7
March ...	9·8	9·8	9·5	10·1	14·0	21·5
April	9·1	9·4	9·5	9·9	14·6	20·9
May	14·3	8·7	9·8	9·9	15·3	20·8
June	14·6	8·8	10·7	9·8	15·4	21·8
July	14·4	9·2	11·6	9·9	16·7	22·6
August ...	14·0	9·3	11·6	10·1	17·1	22·7
September ...	13·7	9·3	11·4	10·0	17·6	23·2
October ...	13·6	9·5	11·8	10·4	18·7	21·9
November ...	13·5	9·9	12·1	11·0	19·1	21·4
December ...	11·9	9·8	11·2	11·1	20·2	

Percentage of Insured Workers.

Prices

1. WHOLESALE PRICES (average for month)

Date.	Index Number (Sept. 16th, 1931 = 100).				
	U.K.	U.S.A.	France.	Italy.	Germany.
1930.					
November	*119·3*	*117·9*	*116·9*	*114·6*	*111·0*
1931.					
June	104·7	101·7	108·8	103·1	103·3
July	104·7	101·2	107·3	100·9	102·6
August	101·6	100·4	105·0	100·6	101·3
September	101·9	99·6	99·4	99·5	99·8
October	108·2	99·0	96·6	99·6	98·4
November	110·5	99·0	95·2	99·1	98·0
December, 1st week	109·4	97·9	93·8	98·1	97·1
December, 2nd week... ...	110·2	97·3	93·3	97·1	96·1
December, 3rd week... ...	109·7	97·1	93·4	97·0	95·2
December, 4th week... ...	108·7	96·7	93·6	—	94·8
December, 5th week... ...	109·2	96·1	—	96·9	—

Sources: U.K., "Financial Times"; U.S.A., Irving Fisher; France, Statistique Generale; Italy, Italian Chamber of Commerce; Germany, Statistische, Reichsamt.

2. RETAIL PRICES (end of month)

Date.	Food.	Rent (including rates).	Clothing.	Fuel and Light.	Other items included.	All items included.
1930.						
November ...	*41*	*54*	*105*	*75*	*75*	*55*
1931.						
June	30	54	95	70	75	47
July	28	54	95	70	75	45
August	28	54	90—95	70—75	75	45
September ...	28	54	90	75	75	45
October	30	54	90	75	75	46
November ...	32	54	90	75	75	48

The figures represent the percentage increase above July, 1914, which is equal to 100.

3. COMMODITY PRICES (average for month)

Date.	Wheat, No. 1 N. Manitoba.	Cotton, American Middling.	Wool, 64's tops avge.	Pig-Iron, Cleveland No. 3.	Tin, Standard Cash.	Rubber, Plantation Sheet.
1930.	Per qr. s. d.	per lb. d.	per lb. d.	Per ton. s. d.	Per ton. £	per lb. d.
November ...	*30 1*	*6·07*	*24*	*63 6*	*113 $\frac{9}{16}$*	*4 $\frac{1}{2}$*
1931.						
June	27 1	4·80	21 $\frac{7}{8}$	58 6	105	3
July	25 5	5·21	22 $\frac{1}{4}$	58 6	111 $\frac{9}{16}$	3
August	23 11	3·92	22 $\frac{1}{4}$	58 6	114 $\frac{11}{16}$	2 $\frac{1}{2}$
September ...	25 9	3·96	21	58 6	117 $\frac{7}{8}$	2 $\frac{3}{8}$
October	29 8	4·74	24 $\frac{1}{4}$	58 6	127 $\frac{1}{16}$	2 $\frac{7}{8}$
November ...	34 9	5·01	25	58 6	132 $\frac{11}{16}$	3